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Thomas W. Hayes
Auditor General

August 24, 1987

P-706

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

We reviewed the fund-raising activities organized for and the donations and services provided to the California State Railroad Museum (museum) by the Sacramento Area Chapter of the Friends of the California State Railroad Museum, Inc., (chapter). The chapter uses museum property during its fund-raising activities in compliance with state law and department policy. Furthermore, before the museum accepts them, donations are evaluated by the staff of the Department of Parks and Recreation (department), which operates the museum as a state historic park. Finally, in the chapter's provision of services, chapter directors do not currently have any conflict of interest with the museum. We did find, however, that the department has not entered into a written agreement to act cooperatively with the chapter. Without this written agreement, the chapter is required to deposit into the General Fund those revenues that it currently earns from the sale of photographs and other materials at the museum library.

Background

The chapter originated from another organization called the Friends of the California State Railroad Museum, Inc., which was established in November 1980. The bylaws of the Friends of the California State Railroad Museum, Inc., list the organization's objectives, which include giving all possible aid to the State of California in conserving, developing, and interpreting the California State Railroad Museum for the benefit of the public. When the museum opened in 1981, the Friends of the California State Railroad Museum, Inc., was one of the groups that co-sponsored the opening celebration with the department. In May 1982 and late April and May 1983, to commemorate the anniversary of the museum's opening, the Friends of the California

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State Railroad Museum, Inc., operated an excursion train, which was made up of steam locomotives and restored passenger cars, between the museum and Miller Park.

In late 1983, the Friends of the California State Railroad Museum, Inc., separated into two organizations--an advisory group operating statewide and a community organization based in Sacramento. The statewide advisory group filed a name change for the original organization and became the California State Railroad Museum Association, Inc. The Sacramento-based organization filed articles of incorporation as the Sacramento Area Chapter of the Friends of the California State Railroad Museum, Inc., (chapter). As an autonomous chapter of the Friends of the California State Railroad Museum, Inc., the chapter's articles of incorporation state that the chapter's purpose is to promote the educational and interpretive activities of the California State Railroad Museum.

The Chapter's Services to the Museum

The chapter began its activities in February 1984. In the summers of 1984 and 1985, the chapter co-sponsored, with the Sacramento State Park Docent Association, the operation of an excursion train. The public was charged a fee to ride the train, which was operated by members of the Sacramento State Park Docent Association. The two organizations provided the initial operational funds and shared the train's proceeds. According to museum records, the train operations resulted in a deficit of \$23,345 in 1984 and a profit of \$36,606 in 1985. Since 1985, the chapter has not received any of the train's proceeds or provided operational funds. In addition, the chapter purchases artifacts and other items and donates them to the museum. For example, in 1985 the chapter spent \$25,000 to purchase five Southern Pacific passenger coaches that were built in 1923 and 1924. The chapter later donated the coaches to the museum. Furthermore, the chapter assists museum library patrons in obtaining photographs and other reproductions of images in the museum library collection. The chapter charges patrons for these services and, in 1986, it collected over \$5,900 in charges.

Scope and Methodology

We reviewed financial reports and a list of directors for the chapter to determine if the chapter operated in accordance with the Public Resources Code. To assess the relationship between the museum and the chapter, we interviewed department personnel and reviewed museum records concerning donations to the museum. We did not review the accounting records of the chapter.

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The Chapter Appropriately Uses Museum Facilities for Fund-Raising Activities

The chapter uses museum property during its fund-raising activities in compliance with state law and department policy. According to Section 5010 of the Public Resources Code, the department may collect fees, rents, and other returns for the use of any area in the state park system, the amounts to be determined by the department. For special events and programs, the department established fees for the use of facilities in the state park system in the Sacramento area. As part of the department's policy for the Sacramento area, the department's area manager may waive the fee upon determination that the event or program "directly benefits the California Department of Parks and Recreation or a closely allied group." Based upon this provision, the museum director waived the fees for a fund-raising event that the chapter held at the museum to celebrate the museum's fifth anniversary. The museum director also approved similar fee waivers for other organizations between 1984 and 1987, including the Sacramento State Park Docents Association, the Pacific Coast Chapter of the Railway and Locomotive Historical Society, and the Toy Train Operating Society. According to the museum director, the chapter has not sponsored any other fund-raising activities at the museum.

The Chapter's Donations to the Museum Are Evaluated

Section 5005 of the Public Resources Code states that the department may accept items to be added to or used in connection with the park system for any purpose connected with the park system. According to the curator responsible for the museum's collections, since 1984, the chapter has spent more than \$51,000 of its resources for the benefit of the museum. The expenditures have ranged from exhibits at the museum to contributing funds to cover a deficit from the operation of the steam excursion train in 1984. A summary of the chapter's donations to the museum is provided in the attachment to this letter.

Department officials evaluate donations before accepting them from the chapter, and the department director or a designated official gives final approval before the items are accepted. The department considers several criteria for each donation, including whether the donation would be of significant benefit to the public and of tangible benefit to the state park system; also, the department considers whether the donation would have an acceptable impact on the department in terms of maintenance costs and whether the donation would prevent the loss of an

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artifact to future generations. Finally, the director of the Department of Finance has been approving all donations valued at \$5,000 or more.

Museum Employees Do Not Have Any
Conflict of Interest With the Chapter

As of May 1987, the chapter had 23 directors, none of whom the department employs. According to the museum director, he helps to prepare the agenda for meetings of the chapter, and certain department staff attend the chapter's meetings to provide information on museum activities and planned acquisitions. However, this assistance complies with statute since, according to Government Code, Section 19990.5, officers and employees may provide services during their office hours to a nonprofit corporation formed exclusively to aid and assist a state museum.

The Department Has Not Entered Into
a Written Agreement With the Chapter

The Public Resources Code recognizes the benefits of allowing a nonprofit, public-benefit corporation to earn revenue within the state park system and to reinvest the money in the park system. Section 513 of the Public Resources Code authorizes the department to enter into agreements to act cooperatively with "private nonprofit scientific or historical associations" when the association furnishes educational or interpretive materials for sale and the department provides services and space for the materials. In addition, the code requires that monies received from the sale of publications or other material provided by an association should be returned to the association for use in the educational or interpretive programs of the state park system. Furthermore, according to the department's Cooperating Association Manual, revenues from an association's publication sales go back to the General Fund unless a cooperating association handles these sales. Finally, the bylaws of the chapter require the association to have a formal contract with the director of the department to provide services in the museum.

However, the department does not have a written agreement with the chapter for the chapter's sale of reproductions and other items in the museum library. Without the agreement, the chapter would lose its proceeds. We have informed the museum director about the lack of a contract between the chapter and the department. He stated that the California State Railroad Museum Association, Inc., and the chapter are in the process of merging and developing new articles of incorporation

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and new bylaws. According to the museum director, the department anticipates that this process will be completed in the fall of 1987. Furthermore, the museum director stated that the department will be executing a contract with the new organization to cover its operations at the museum.

Conclusion

The chapter complies with state law and department policy when using the museum for fund-raising activities. Furthermore, donations made by the chapter are evaluated by department staff before being accepted. In addition, the directors of the chapter do not currently hold positions at the museum; therefore, there is no conflict of interest between the chapter and the museum. However, in its service of providing library reproductions and other items to patrons of the museum's library, the chapter conducts activities similar to those of a cooperating association, but it does not have a written cooperative agreement with the State. When the chapter does not have a contract, it cannot retain its profits, which are necessary if the chapter is to continue providing services to the museum.

Recommendation

We recommend that the Department of Parks and Recreation execute a written contract to act cooperatively with the chapter with regard to the sale of photographs and other materials at the museum library. A contract will allow proceeds from the sale of these items to be returned to the chapter for furthering the educational and interpretive activities of the museum.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Attachments

The Resources Agency's response to this report

ATTACHMENT

**SUMMARY OF DONATIONS
TO THE CALIFORNIA STATE RAILROAD MUSEUM
BY THE SACRAMENTO AREA CHAPTER OF THE
FRIENDS OF THE CALIFORNIA STATE RAILROAD MUSEUM, INC.
1984 THROUGH 1986**

1984 DONATIONS:	Thirteen cartons Sierra Railway vouchers	\$ 1,000
	Capital expenses--steam train loss	<u>12,004</u>
	Total Donations	<u>\$13,004</u>
1985 DONATIONS:	Baldwin Paint Catalog filming	\$ 224
	Southern Pacific China Basin photos	291
	Hart stereo graphic photos of the construction of the Central Pacific Railroad	150
	Refurbishing Locomotive 1771	2,500
	Purchase of five railroad passenger cars	<u>25,000</u>
	Total Donations	<u>\$28,165</u>
1986 DONATIONS:	Architectural drawings--Museum of Railroad Technology	\$ 1,562
	Museum participation in steam exposition	5,573
	Archival supplies	1,345
	Exhibit opening reception	271
	Santa Fe book	37
	Broadbelt Baldwin photos	24
	Southern Pacific Annual Railroad pass and Pullman ticket window sign	38
	Packing Atchison Topeka and Santa Fe collection, Topeka	920
	Southern Pacific timetables	64
	Chicago, Rock Island and Pacific Railroad posters, 1884	<u>130</u>
	Total Donations	<u>\$ 9,964</u>

Source: Curator, Sacramento Area Chapter of the Friends of the
California State Railroad Museum, Inc.

Memorandum

To : Thomas W. Hayes
Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Date :

File No.:

Subject : AUG 20 1987

From : Office of the Secretary

Thank you for the opportunity to review and comment on your draft letter concerning the Sacramento Area Chapter of the Friends of the California State Railroad Museum Inc.

I am pleased to report that the Department of Parks and Recreation is in agreement with the letter and will implement its recommendation as indicated by the attached letter from Director Henry R. Agonia.



Gordon K. Van Vleck
Secretary for Resources

Attachment

Memorandum

Date : AUG 19 1987

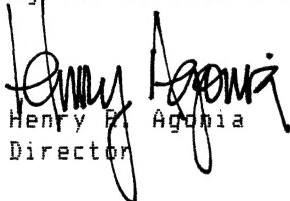
To : Honorable Gordon Van Vleck
Secretary for Resources

From : Department of Parks and Recreation

Subject: Auditor General Report - Sacramento Area of the Friends of the California State Railroad Museum.

The Department is in agreement with the findings and conclusions of the report and will implement its recommendation.

The Sacramento Area Chapter of the Friends of the California State Railroad Museum is merging with the California State Railroad Museum Association to form The California State Railroad Museum Foundation. Draft by-laws have been approved by both organizations and we expect to have an approved cooperating agreement with the new organization no later than November 1, 1987.


Henry P. Agonza
Director